

## **Funding of operations/Financial sustainability/Going concern**

11. No significant financial or going concern difficulties were identified during our audit.

## **Qualitative aspects of accounting practices**

12. As set out in accounting policy note 1 of the municipality's financial statements, the municipality has adopted the transitional provisions available in the Standards of GRAP.

## **Material losses/impairments**

13. No losses/impairments were identified during the year under review.

## **Unauthorised/fruitless and wasteful/irregular expenditure**

### **Fruitless and wasteful expenditure**

14. As disclosed in note 34 to the financial statements, fruitless and wasteful expenditure in the amount of R45 398 was incurred, in the form of interest, penalties, bank charges and payments in court judgements.

## **Budgetary control**

15. No material findings were identified during our audit.

## **Accounting discipline**

16. No material findings were identified during our audit.

## **Financial indicators/ratios**

17. No adverse financial indicators or ratios were identified during our audit.

## **Significant uncertainties**

18. No material findings were identified during our audit.

## **Financial reporting systems**

19. No material findings were identified during our audit.

## **Revision of the previously issued financial statements**

20. The prior year's financial statements have not been amended and re-issued.

## **Accounting reforms**

21. The municipality (low capacity) has adopted Standards of GRAP in the previous financial year. The challenges faced with the valuation/measurement of property, plant and equipment, investment properties, inventory, intangible assets and infrastructure assets still continue in the current year.

**Material inconsistencies in other information included in the annual report**

22. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

**Internal audit**

23. Internal audit function did not develop a risk based audit plan and an internal audit programme nor was there evidence of quarterly reporting to the audit committee.

**Audit committee**

24. There was no evidence that the audit committee advised the municipality on matters of internal financial control and internal audit matters, risk management and other issues of governance nor did it review the annual financial statements submitted for audit.

**Management of risk**

25. The municipality did not undertake a risk assessment nor did it have a fraud prevention plan in place.

**Prior year observations and recommendations addressed**

26. Prior year findings and observations have not been adequately resolved.

**Unavailability of key personnel**

27. Key personnel were available throughout the audit.

**Adequacy and competence of financial reporting personnel**

28. Numerous errors were noted with regards to application of Standards of GRAP, thus indicating that financial personnel should undergo training in this respect.

**Unavailability of expected information**

29. Delays were experienced in the availability of expected information.

**Late submission of financial statements**

30. The financial statements were submitted on 31 August 2009.

**Related parties**

31. No material findings were identified during our audit.

**Performance rewards**

32. No material findings were identified during our audit.

**Non-compliance with applicable legislation**

**Municipal Finance Management Act**

33. The municipality did not have a listing nor invite prospective providers to apply for evaluation and listing as accredited providers.

## Municipal Systems Act

34. Reports relating to oversight on the supply chain management process were not prepared nor were they made public.

## SCOPA /Oversight resolutions

35. No resolutions were noted.

## Key governance responsibilities

36. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Many of these have been addressed in detail above. The table below reflects how certain of the financial and governance matters as well as other matters included under the reporting on performance information below, will be reported in the auditor's report.

No.	Matter	Y	N
	<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>		
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<b>Quality of financial statements and related management information</b>		
2.	The financial statements were not subject to any material amendments resulting from the audit.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<b>Timeliness of financial statements and management information</b>		
4.	The annual financial statements were submitted for auditing as per the legislated deadlines, as set out in section 126 of the MFMA.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<b>Availability of key officials during audit</b>		
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<b>Development and compliance with risk management, effective internal control and governance practices</b>		
6.	<b>Audit committee</b>		
	• The municipality had an audit committee in operation throughout the financial year.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	• The audit committee operates in accordance with approved, written terms of reference.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
7.	<b>Internal audit</b>		
	• The municipality had an internal audit function in operation throughout the financial year.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	• The internal audit function operates in terms of an approved internal audit plan.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used, as set out in section 62(1)(c)(i) of the MFMA.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

No.	Matter	Y	N
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
14.	SCOPA/Oversight resolutions have been substantially implemented.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Ulundi Municipality against its mandate, predetermined objectives, outputs, indicators and targets per section 68 of the MFMA.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

### **Achievement of good practice indicators**

37. The following good practices are the drivers of audit results. We have indicated our assessment of the municipality achievement of these good practices, based on the matters included elsewhere in this report.

	Good practice	Y	N
1	Clear trail of supporting documentation that is easily available and provided timely.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2	Quality of financial statements and related management information.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3	Timeliness of financial statements and management information.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4	Availability of key officials during audits.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5	Development and compliance with risk management and good internal control and governance practices.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
6	Leadership/supervision and monitoring.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

38. Although key personnel were available throughout the audit to render assistance, significant difficulties were experienced with regards to availability of requested information. Further weaknesses were also evident, which indicates that the municipality should take adequate steps to improve the internal controls surrounding audit trails, compliance with risk management, governance and the monitoring of financial reporting in the financial statements and management information.

### **SIGNIFICANT FINDINGS FROM OUR REVIEW OF THE PERFORMANCE INFORMATION**

39. No material findings were identified during our audit.

### **SIGNIFICANT FINDINGS FROM SPECIFIC FOCUS AREAS**

40. No specific focus areas were subject to audit during the year under review.

### **INFORMATION ON AUDITS CONDUCTED OTHER THAN ON THE FINANCIAL STATEMENTS**

#### **Investigations**

41. No investigations were conducted during the year under review.

#### **Performance audits**

42. No performance audits were conducted during the year under review.

### **Special audits**

43. No special audits were conducted during the year under review.

### **RATINGS OF DETAILED AUDIT FINDINGS**

44. For the purposes of this report, the detailed audit findings included in annexures A and B have been classified as follows:

- Matters to be included in the auditor's report.

*These matters should be addressed as a matter of urgency.*

- Other important matters – deficiencies that could adversely affect the entity's ability to initiate, record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.

*These matters should be addressed within the next 12 months.*

45. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

### **APPRECIATION**

46. We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the Ulundi Municipality during the audit.

Yours faithfully

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#### **Distribution:**

CFO  
Audit Committee Chair  
Head of internal audit

### SUMMARY OF AUDIT FINDINGS

Page no.	Finding	Classification	Control Component	Impact on audit report		Other responsibilities	Other important matters	Administrative matters	Reported in previous years	In which years was it reported
				Qualification	Emphasis of matter					
<b>COMPLIANCE WITH LEGISLATION (NON-AFS)</b>										
15.	Inadequate management of risk	Compliance (Non-AFS)	Control activities		✓				Yes	✓
16.	Suppliers not properly accredited	Compliance (Non-AFS)	Control activities		✓				No	
17.	Internal audit function ineffective	Compliance (Non-AFS)	Control environment		✓				Yes	✓
18.	Audit committee not fully functional	Compliance (Non-AFS)	Control environment		✓				Yes	✓
19.	Oversight reports not prepared	Compliance (Non-AFS)	Monitoring of controls		✓				Yes	✓
<b>CASH AND CASH EQUIVALENTS</b>										
20.	Bank accounts not accounted for	Financial	Control environment			✓			No	
21.	No tender process for banking services	Value for money	Control activities			✓			No	
22.	Uncollected cheque expensed	Financial	Control activities			✓			No	
23.	Unpaid cheque register incomplete	Control	Monitoring of controls			✓			No	
<b>COMPLIANCE WITH LEGISLATION (NON-AFS)</b>										
24.	Fruitless and wasteful expenditure	Compliance	Control			✓			Yes	✓

Page. no.	Finding	Classification	Control Component	Impact on audit report				In which years was it reported
				Qualification	Emphasis of matters	Other responsibilities	Other important matters	
25.	Approval of the budget and the SDBIP not timeous	(Non-AFS)	activities	Control activities	Control activities	✓	✓	2005/06
26.	Creditors not paid timeously	Compliance (Non-AFS)	Control	Control activities	Control activities	✓	No	2006/07
28.	Tariff bylaws not updated	Control activities	Control activities	Control activities	Control activities	✓	No	2007/08
29.	Municipality's website not up to date	Compliance (Non-AFS)	Information system and comm.	Information system and comm.	Information system and comm.	✓	No	Reported in previous years
30.	Municipality's tariff policy insufficient	Compliance (Non-AFS)	Control activities	Control activities	Control activities	✓	No	
31.	Weaknesses over petty cash	Control	Control activities	Control activities	Control activities	✓	No	
<b>EMPLOYEE COSTS</b>								
32.	Changes to masterfile report not authorised	Control	Control activities	Control activities	Control activities	✓	No	
33.	Reconciliation of payroll to financial systems not reviewed	Control	Control activities	Control activities	Control activities	✓	No	
34.	Skills development levy differences	Financial	Control activities	Control activities	Control activities	✓	No	
35.	No reconciliations for third party payments	Control	Control activities	Control activities	Control activities	✓	No	
36.	Unissued cheque register not signed	Control	Control activities	Control activities	Control activities	✓	No	
37.	Payroll not certified by heads of departments	Control	Control activities	Control activities	Control activities	✓	No	

Page no.	Finding	Classification	Control Component	Impact on audit report			In which years was it reported
				2005/06	2006/07	2007/08	
							Reported in previous years
							In which years was it reported
38.	Inadequate documentation for other leave	Control	Control activities		✓	No	
39.	Leave approved after leave is taken	Control	Control activities		✓	No	
40.	Medical certificates not on file	Control	Control activities		✓	No	
<b>GENERAL IT CONTROLS</b>							
41.	No rejected transaction listings	Control	Control environment		✓	No	
42.	No information technology policy	Control	Information system and comm.		✓	No	
<b>INVENTORY</b>							
43.	Inventory difference	Financial	Control activities		✓	No	
44.	Inventory not insured	Financial	Control environment		✓	No	
45.	Reconciliation of inventory items not performed	Control	Control activities		✓	Yes	✓
46.	Store requisitions not sequentially numbered	Control	Control activities		✓	No	
<b>INVESTMENTS</b>							
47.	Quotations not obtained from three banks	Compliance (Non-AFS)	Control activities		✓	No	

Page no.	Finding	Classification	Control Component	Impact on audit report				In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Reporting responsibilities	Other important matters	Administrative matters	Reported in previous years
<b>OPERATING EXPENDITURE</b>										
48.	GRV 11225 not recorded in the correct period	Financial	Control activities					✓	✓	No
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>										
49.	Computers purchased not found in asset register	Financial	Control environment					✓	✓	No
50.	No reconciliations between asset register and general ledger	Control	Control activities					✓	✓	No
51.	The fixed asset register is not updated for disposals of assets	Control	Control environment					✓	✓	No
<b>RECEIVABLES</b>										
52.	SARS overpayment account	Control	Control activities					✓	✓	No
53.	Difference between consumer debtors in financial statements and general ledger	Financial	Control environment					✓	✓	No
54.	Incorrect classification of consumer deposit	Control	Control activities					✓	✓	No
<b>REVENUE</b>										
55.	Electricity distribution losses are not monitored	Control	Control environment					✓	✓	No